Elbit Systems Ltd.

Conference Call

November 19, 2024

Operator

Welcome to the conference call to discuss Elbit Systems' results for the third quarter of 2024. Thank you all for holding, all participants are at present in a listen-only mode. Following management's formal presentation, instructions will be given for the question-and-answer session. As a reminder, this call is being recorded.

I would now like to turn the call over to Daniella Finn, Elbit Systems' VP Investor Relations.

You may begin.

Daniella Finn

Thank you, Daniel.

Hello everyone, and welcome to our third quarter 2024 Earnings Call. On the call with me today are **Butzi Machlis, President and CEO, Kobi Kagan CFO and Myself Daniella Finn VP Investor Relations.**

Before we begin, I would like to point out that the Safe Harbor Statement in the Company's press release issued earlier today also refers to the contents of this conference call.

As usual, we will provide you with both GAAP financial data as well as certain supplemental non-GAAP information. We believe that this non-GAAP information provides additional transparency to help understand the performance of the ongoing business. You can find all the detailed GAAP financial data, as well as the non-GAAP information and the reconciliation, in today's press release.

Kobi will begin by discussing the financial results, followed by Butzi who will elaborate on the main events during the quarter and beyond. We will then turn the call over to a Q&A session.

With that, I would like now to turn the call over to Kobi.

Kobi – please go ahead

Kobi Kagan

Thank you, Daniella,

Hello everyone and thank you for joining us today.

The financial results of the third quarter of 2024 continue to reflect the ongoing strong demand for our technology and solutions and the progress in the implementation of our operational improvement plans. In fact, this is the third consecutive quarter where we recorded double digit revenue growth.

Turning now to the results of the third quarter.

Third quarter revenues increased by 14% to one billion, seven hundred and eighteen million dollars compared to one billion, five hundred and two million dollars in the third quarter of 2023.

In terms of quarterly revenues by segment:

Aerospace revenues increased by 7% in the third quarter of 2024 compared to the third quarter of 2023, mainly due to increased UAS sales in Israel.

C4I and Cyber revenues increased by 13% year over year mainly due to radio systems and command and control systems sales.

ISTAR and EW revenues increased by 13% mainly due to Electronic Warfare and Electro-Optic systems sales.

Land revenues increased by 24% due to the increase in ammunition and munition sales in Israel.

Elbit Systems of America revenues increased by 17% mainly due to the increase in night-vision systems and medical instrumentation sales.

Elbit Systems' diverse geographic revenue base helps to reduce revenue volatility and supports the long-term sustainability of our business.

In the third quarter of 2024, Europe contributed 25% of revenues, North America 23% of revenues, Asia-Pacific 18% of revenues and Israel contributed 29% of revenues.

Israel revenues continued to grow on the back of the prolonged conflict in the region mainly in the land segment.

The non-GAAP gross margin for the third quarter was 24.4%, compared to the third quarter of 2023 at 24.9%.

GAAP gross margin in the third quarter was 24.0% of revenues compared to 24.5% in the third quarter of 2023.

Third quarter non-GAAP operating income was 140.7 million dollars or 8.2% of revenues, in the third quarter of 2024, as compared to 120.0 million dollars or 8.0% of revenues, in the third quarter of 2023. GAAP operating income for the third quarter was 125.8 million dollars or 7.3% of revenues, as compared to 106.1 million dollars or 7.1% of revenues, in the third quarter of 2023.

The operating expense breakdown in the third quarter was as follows:

- Net R&D expenses were 119.9 million dollars or 7.0% of revenues, in the third quarter of 2024, as compared to 103.3 million dollars or 6.9% of revenues, in the third quarter of 2023. This increase was mainly due to additional R&D efforts in our Land segment, and continuous investment in high power laser solutions.

- Marketing and selling expenses were 91.3 million dollars or 5.3% of revenues, in the third quarter of 2024, as compared to 86.0 million dollars or 5.7% of revenues, in the third quarter of 2023.
- G&A expenses were 75.7 million dollars or 4.4% of revenues, in the third quarter of 2024, as compared to 71.8 million dollars or 4.8% of revenues, in the same period last year.

Financial expenses were 45.0 million dollars in the third quarter of 2024, as compared to 35.7 million dollars in the third quarter of 2023.

The increase in financial expenses is due to the elevated interest rates in both the US and in Israel. Additionally, the rapidly growing backlog due to the Swords of Iron war, required higher levels of working capital expenditures.

We recorded a tax expense of 12.8 million dollars in the third quarter of 2024, compared to 10.0 million dollars in the third quarter of 2023.

The effective tax rate in the third quarter of 2024 was 14.6%, similar to the rate in the third quarter of 2023.

Our Non-GAAP diluted EPS was 2 dollars and 21 cents in the third quarter of 2024 compared to 1 dollar and 71 cents in the third quarter of 2023.

GAAP diluted EPS was 1 dollar and 77 cents for the third quarter of 2024 compared to 1 dollar and 36 cents in the third quarter of 2023. This is the second consecutive quarter of double digit EPS growth.

Our backlog of orders as of September 30, 2024 was 22.1 billion dollars, approximately 5.5 billion dollars higher than the backlog at the end of the third quarter of 2023.

In the third quarter of 2024 the company recorded new orders of 2.7 billion dollars, of which 1.4 billion dollars came from the Israeli market. Approximately 66% of the current backlog was generated from outside of Israel. Approximately 37% of the current backlog is scheduled to be performed during the remainder of 2024 and in 2025, while the rest is scheduled to be performed during 2026 and beyond, which demonstrates the potential of the continued growth of the company.

Operating cash flow for the nine months ending September 30, 2024 was 83 million dollars inflow compared to 200 million dollars outflow for the same period last year.

The Board of Directors has declared a dividend of 50 cents per share.

I will now turn the call over to Mr. Machlis, Elbit's President & CEO.

Butzi, please go ahead.

Butzi Machlis

Thank you Kobi.

As in the past year, I would like to express my ongoing gratitude and appreciation for our global workforce who continue to demonstrate their ongoing remarkable commitment to our customers worldwide during these times of elevated demand for our cutting-edge products and solutions.

In order to meet the continued increased demand for our solutions we expanded production facilities, increased inventory levels in order to address the growing backlog and supply chain challenges, and continued to recruit employees.

This is the second consecutive quarter we are proud to report over 25% increase in our EPS year over year and the third consecutive quarter in which we report double digit revenue growth.

In addition, we recorded a record backlog of 22.1 billion dollars. All these are a clear testament of our product and technological superiority.

These accomplishments, among others, have contributed to the advancement of our internal revenue target to reach over 7 billion dollars by 2025, and our internal target of 2026 non-GAAP operating margin of around 10%. We continued to receive significant orders, which I will discuss in detail.

Yesterday we announced that Elbit was awarded contracts worth a total amount of approximately 335 million dollars, to supply defense systems to a European customer. The contracts include the supply of PULS™ (Precise and Universal Launching Systems) rocket launchers and rockets, as well as Hermes™ 900 Unmanned Aircraft Systems (UAS) equipped with advanced payloads. These are two of our flagship business lines which are in high demand globally.

These contracts follow a number of successes we announced during the quarter.

Our extensive R&D efforts in the past years resulted in a contract to supply High-Power Laser for the "Iron Beam" Air Defense System. This breakthrough technological solution provides a robust defense against a variety of threats. We are extremely proud of this development and believe it will be a meaningful technology in the modern battlefield.

We continue to win new contracts to supply our Iron Fist APS solution. The latest contract is for the US army's Bardely IFVs. This solution is aimed at enhancing the self-defense capabilities of armored platforms against modern battlefield threats. It is characterized by high performance and low volume, low weight and power requirements. The system provides armored platforms with 360-degree protection from a wide variety of anti-armor threats, such as Anti-Tank Rockets (ATR), Anti-Tank Guided Missiles (ATGM), UAS and Loitering threats, in both open terrain and complex urban environments.

Finaly, Elbit Systems was awarded, as a partner of the Israel Defense Ministry, the 2024 Israel Defense Prize for three separate innovative defense technological systems. These include a prize for the role of the Citron Tree and Golden Almond Battle Management Centers (BMC) in the David's Sling air defense, developed by Elisra, an Elbit subsidiary. Elbit Systems was also recognized for its role in developing technology for the IDF's Namer Heavy Armored Personnel Carrier (APC) as well as for a classified system.

Our ongoing success has been driven by two key factors: Elbit Systems' extensive geographic presence across Europe, North America, Asia, and Israel, and our wide portfolio of advanced technological solutions, which have proven highly effective amid increasing global defense budgets.

On behalf of myself and the entire company, we continue to deeply wish for the immediate release of all hostages held captive in Gaza. They are constantly in our hearts and minds, and we eagerly await their safe return home.

And with that, we will be happy to take your questions.

Operator: Thank you. Ladies and gentlemen. At this time we will begin the question-and-answer session. If you have a question, please press star-one. If are using speaker equipment, kindly lift the handset before pressing the numbers. All questions will be polled in the order they are received. Please stand by while we poll your questions. first question is from Ellen Page of Jefferies.

Ellen: Hi guys, thanks for the question, and congrats on the quarter. I just wanted to ask about the Iron Beam contract that you received in the quarter. I think that's one of the first, like, near-term high-powered laser contracts that you've received, unless I'm mistaken. And I just wondered

if you could talk about that opportunity over the next three to five years, and how you think about that program contributing to revenue.

Butzi Machlis: Thank you, Ellen. We at Elbit believe that energy weapons are a growth engine for the company and we invest in these technologies in several domains. One of them is high-power laser solutions. We believe there are great advantages for these High Power Lasers. In fact, these systems can destruct several threats in a very economical way. We hope to deploy these solution next year, together with the IMOD, the first land high-power laser, a solution we developed together with Rafael, the Iron Beam system. We are continuing to develop these solutions as we see a lot of potential for these systems abroad as well. Additionally, we continue to develop the High Power Laser airborne solution. The airborne solution, a technology which we develop in Elbit has great potential. Activating airborne high-power lasers will enable us to reach long distances and to increase the effectiveness of the system. We are a world leader in this technology, and we see a growing potential for high-power lasers as well as for additional directed energy weapons.

Ellen Page: Thanks, that's helpful. And then, on – as kind of an offset, European sales were down 13% year over year. I think it was a tough comp, but just given a potential change in the funding environment, as it relates to, like, US supplementals in that region, how are you thinking about the opportunity in that region going forward, and – the demand environment in Europe, over the next few years?

Kobi Kagan: Hi, Ellen. We experienced this quarter a 17% increase in our Elbit Systems of America sales year over year. This growth is attained due to our position in the market in both, night vision sales and medical instrumentation sales, where we recorded increased sales. We believe

that we are well positioned for growth in the future as well. As to the European market we believe it will experience higher demand as the push for higher defense expenditure will materialize, given the threat that this market is experiencing. Just yesterday, we announced a contract of 335 million dollars to a European country of two of our high runner systems: the PULS and the UAS, the Hermes 900., This contract, among others, is strong evidence of this potential for the company for continued future growth.

Ellen: Thank you. I'll leave it there.

Kobi Kagan: Thank you, Ellen.

Operator: The next question comes from Ella Fried of Bank Leumi. Please go ahead.

Ella Fried: Hello, it's Ella.

Butzi Machlis: Hello, Ella. Good afternoon.

Ella Fried: First, I would like to congratulate you on the results and on the exceptional growth. And I would like to discuss a bit further on your growth targets. First, the growth of 2025. We actually don't hear so much about your plans beyond 2025. I know that it will depend very much on the political and geopolitical environment. But still, I'm sure you have some assumptions. Do you see it, the growth beyond '25, '26 as steady? Do you have other milestones that are, you know, leading you to some more growth spikes?

Butzi Machlis: Hello, Ella, Good afternoon. As evident from our reported backlog, the company will continue to grow in the e coming years, and we expect continued growth in the coming quarters, to deliver the volume of the backlog we have. We see growing demand worldwide for our solutions. We see it in Europe, we see it in the US, we see it in the Far East, and,

of course, here in Israel. Our backlog, by the way, covers not only 2025, but also the years beyond. It's difficult to predict the exact growth expected in the far future. But I'm quite confident that the company will continue to grow based on the demand we see right now in the markets. I would like to add that our internal goal was to reach 7 billion of sales by 2026. We are almost there already. So, it's obvious that next year sales will be above 7 billion dollars. And as I said, we expect to grow further in '25 and in '26. Actually, the main bottleneck right now to convert backlog into revenues and profit – is execution, our ability to produce the products and solutions. In order to meet the demand, we are enhancing our production capabilities. We have just inaugurated a new production facility for UAVs. The production line in Ramat Beka will be operational together with the current production site in Ramat Hasharon. We are also expanding our production lines for communication, among others, to meet the growing demand we are experiencing.

Ella Fried: Well, if I can interpret what you said, you actually mean that even beyond '26 you expect not only these numbers to be sustainable, but you expect steady growth. You don't know at what pace, but you expect the steady growth to continue.

Butzi Machlis: Yes, that is correct. there will additional acquisitions which are part of our strategy. We know how to merge companies into Elbit, and we are looking intensively for additional acquisitions for the company. We are looking for new technologies to complement our portfolio, and for new footprints in international markets.

Butzi Machlis:

Ella Fried: Thank you. The following question refers to your internal, which is does the improvement will be through operational income and less dramatic improvement in gross margins?

Kobi Kagan: Hi Ella. As you know, we now provide segment profitability and revenue data. I You can compare the profitability for our land segment between '23 and '22, and next quarter we will provide profitability for the full year of 2024. Same for Elbit System America, you see that in both segments, as we mentioned, we are expecting as per our internal goals to have increased margin expansion, on the back of increased activity in land and improvement in ESA performance. The Land segment grew 37% in Q2 followed by a 24% growth in Q3. This translates into operational efficiency. Elbit Systems of America has posted a significant margin improvement as well. We worked hard at Elbit Systems of America to improve its profitability. We are extremely happy with the increase of 17% year over year sales in Elbit Systems of America. The increased revenues will also lead to the expansion in profit margins. So, these are the two segments in which we expect increased profitability and increased efficiencies going forward. The other three segments should maintain their profitability margins while expanding revenue as well.

Butzi Machlis: Ella, if I may add, we are starting to see results of the investments we made in the new ERP system, which was a significant investment. Currently, the entire company is on one platform, a good way to reduce costs and to be more efficient. Additionally, we continuously evaluate our portfolio, including divestiture of non-core assets as we did with the sale of Ashot Ashkelon. At the same time, we are looking for compatible acquisitions.

Ella Fried: thank you. If I may, another question on this topic. You mentioned a few times that you are starting to see the improvement of some contracts, some of them CPI linked as well as other improvements. And of course less inflation in the United States. So, when do you think this impact will be at its peak, the strongest?

Kobi Kagan: Thank you, Ella. We do have fixed price contracts without escalation clauses, mostly in Elbit Systems of America.

In the Night Vision division we have managed to flush the remaining fixed price contracts with the old prices which resulted in relatively low profitability. In Sparton, the sonar buoys business we expect to see the end of these contracts next year. So, most of the fixed price contract with lower profitability due to the price escalation in the US, are behind us. This is part of the improvement in Elbit Systems of America.

Ella Fried: Okay, thank you very much for taking my questions.

Butzi Machlis: Thank you, Ella.

Operator: The next question is from Guy Moallem of Analyst. Guy pls go ahead.

Guy Moallem: Congratulations on the good results. I have a question about the CapEx. In the past, maybe two or three years ago, it was just a little bit under 200 million dollars a year, before acquisitions of other companies. With the recent increase in the backlog and the scale of the operations, do you think you're going to need more CapEx in the coming years?

Kobi Kagan: Hi, Guy. As Butzi mentioned before, we concluded deploying a very big investment in the ERP system which was around 150 million dollars over several years. We actually inaugurated the system, which is fully operational now, across the company including in Elbit Systems of America. What we see currently is additional investments in the Ramat Beka facility. We estimate the same level of CapEx investment in 2025

Guy Moallem: Okay, thanks. And just to make sure, are you still with the target of 10% operating profit in the medium term, maybe 2026 and beyond?

Kobi Kagan: As we mentioned previously, these are our internal goals, which are to reach the 10% non-GAAP operational profitability in 2026. And as for EPS, our internal goal is to reach 9 dollars next year and 12 dollars in 2026, doubling the EPS from 2023 to 2026.

Guy Moallem: Okay, thank you very much.

Kobi Kagan: Thank you, Guy.

The next question is from David Fingold of Dynamic Funds. Please go ahead.

David Fingold: Good morning.

Butzi Machlis: Hi, David,

Good morning.

David Fingold: Good afternoon to you, the laser contract, is that for both the airborne and the land-based version?

Butzi Machlis: No. The laser contract we received is a production contract for the ground system only.

David Fingold: Okay, so it's only for the ground system, and I guess Rafael is the systems integrator?

Butzi Machlis: That's right, they are

David Fingold: Okay.

Butzi Machlis: The order is split, Rafael received half of it we got the other half from the IMOD. This is a production order, after much of the development was concluded. In parallel, Elbit continues to develop the airborne version of the system, as a prime and sole contractor.

David Fingold: Okay, and is that research and development? Or is there a development contract?

Butzi Machlis: Part of it is a development contract and part of it is our own R&D.

David Fingold: Okay. Do you disclose the size of the development contract?

Butzi Machlis: No, we cannot.

David Fingold: Okay. Anyway, thank you.

Butzi Machlis: Thank you, David.

Operator: The next question is from Stanley Bogen of Bernstein. Please go ahead.

Stanley Bogen: What is the significance of the decline in sales in Europe, considering what's going on now in the Ukraine?

Kobi Kagan: Hi, Stanley. As you see, we have almost doubled our sales in Israel. And while we win contracts in Europe, we mostly were able to maintain the production despite our capacity constraints. If you look at three quarters, there isn't a European revenue significant decline, only a small decline in three quarters' revenue. Our backlog in Europe is increasing. We hope that with the increased production capacity that we are working on, and, as Butzi mentioned, our efforts to double the production of ammunition, to be in a position where we can ship quicker and fulfill our backlog in Europe and in other places around the world.

Stanley Bogen: Right, thank you.

Operator: There are no further questions at this time. Before I ask Mr. Machlis to go ahead with his closing statement, I would like to remind participants that a replay of this call will be available two hours after the conference ends. In the US, please call 1-888-782-4291. In Israel, please call 03-925-5900. And internationally, please call 972-3-925-5900. A replay of the call will also be available at the company's website, www.elbitsystems.com. Mr. Machlis, would you like to make your closing statement?

Butzi Machlis: Thank you. First, I would like to welcome Daniella. Good luck, Daniella.

Daniella Finn: Thank you very much.

Butzi Machlis: I would like to thank our employees again for their hard work and dedication. To everyone on the call, thank you for joining us today, and for your continued support and interest in our company. Have a good day, and goodbye.

Operator: Thank you. This concludes the Elbit Systems Ltd. third quarter 2024 results conference call. Thank you for your participation. You may go ahead and disconnect.